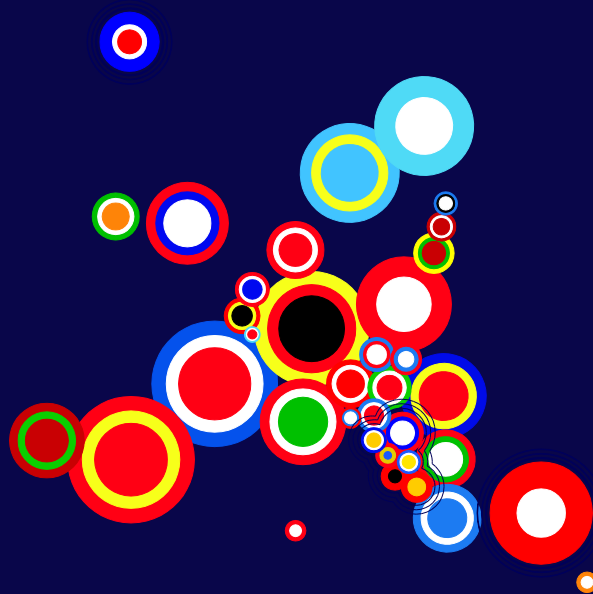




## INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

### BOSNIA AND HERZEGOVINA

#### SME Competitiveness Support Facility



#### Action Summary

The Action aims to improve SME competitiveness by facilitating **access to longer term finance** through the provision of technical assistance and investment incentives for sub-borrowers. **The overall objective of the Action is to increase SME competitiveness on international market.**

The availability of EBRD funded SME finance should enable the **SMEs to improve production capacities, enhance processes and quality of their products by introduction of EU standards in the field of environmental protection, product safety and quality and occupational health and safety.** Through the network of local consultants, the Action will raise awareness on the SME Facility, perform investments needs assessments and facilitate preparation of projects for loan applications. The Action is expected to mobilise some **20 million EUR of lending from EBRD credit lines to SMEs clients through partnership banks for SME investments.**

The Action will also be complemented by a continuation of the previously successfully implemented EBRD **Small Business Support programme** and its two related instruments: Enterprise Growth Programme, targeting development of senior management business skills and Business Advisory Services, which facilitate provision of private sector consultancy to SMEs.

<b>Action Identification</b>	
<b>Programme Title</b>	<i>Country Action Programme for Bosnia and Herzegovina for the year 2014</i>
<b>Action Title</b>	SME competitiveness support facility
<b>Action Reference</b>	IPA 2014/ 037-662.7/Bosnia and Herzegovina/SME competitiveness support facility
<b>Sector Information</b>	
<b>ELARG Sectors</b>	Competitiveness and innovation: local development strategies
<b>DAC Sector</b>	32130 - SME development
<b>Budget</b>	
<b>Total cost (VAT excluded)<sup>1</sup></b>	<i>EUR 24 million</i>
<b>EU contribution</b>	<i>EUR 4 million</i>
<b>Management and Implementation</b>	
<b>Method of implementation</b>	Indirect management
<b>Implementing Agency</b>	European Bank for Reconstruction and Development (EBRD)
<b>Location</b>	
<b>Zone benefiting from the action</b>	Bosnia and Herzegovina
<b>Timeline</b>	
<b>Deadline for conclusion of the Financing Agreement</b>	at the latest by 31 December 2015
<b>Contracting deadline</b>	1 years following the date of conclusion of the Financing Agreement
<b>End of operational implementation period</b>	6 years following the date of conclusion of the Financing Agreement

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<sup>1</sup> The total action cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

## 1. RATIONALE

### PROBLEM AND STAKEHOLDER ANALYSIS

Bosnia and Herzegovina has been slower than many neighbouring countries to adapt to market changes. With less than 25 SMEs per 1,000 people, compared to the EU average of 40 SMEs, it **lags behind other countries in the region in the stimulation of entrepreneurship**. In terms of SMEs export, none of the 100 largest exporters from Bosnia and Herzegovina fall under the category of small enterprises, while the export of lower added value products prevails amongst SMEs. **Export of innovative products (medium and high-tech) and knowledge-intensive services is also amongst the lowest in Europe**. While businesses in general spend less on innovation in Southern East Europe than any other region in Europe, investment in research and innovations is significantly below 1% of GDP in BiH. The **World Bank's Doing Business 2013** report ranked Bosnia and Herzegovina 126<sup>th</sup> out of 185 countries in ease of doing business. In the most recent **Global Competitiveness and Innovation Index**, BiH ranks 87<sup>th</sup> out of 148 countries, with particularly low scores recorded in innovation and business sophistication, reflecting the low level of commercialisation of research and development results.

Besides SMEs, the **key stakeholders** in Bosnia and Herzegovina in this process include entities, cantons, municipalities, clusters and innovation support organisations. The lack of access to finance for SMEs, coupled with a low level of product innovation and weak linkages between industry and universities are the major impediments to knowledge-based growth and local competitiveness. These conditions highlight a need for strategic economic development approach, with a particular focus **on SMEs competitiveness, innovation and growth** at the entities and local level, **as essential contributors for economic recovery**.

This Action aims to reduce the barriers to **SMEs' access to finance** by focusing on enhancing competitiveness of SMEs with growth potential in most dynamic sectors. This will be achieved through the expansion of an existing support facility for SMEs with an instrument that has already proved to be successful in the region.

### RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

The **Country Strategy Paper (CSP)** recognizes the SME sector as the backbone of Bosnia and Herzegovina's economy, however, to develop into a fully competitive and sustainable force, it needs to address administrative and regulatory burdens. This Action directly addresses the CSP's priority of **Competitiveness and Innovation** by supporting private enterprises, in particular the needs of **local entrepreneurs for access to green products, innovative technology, business support services and finance, which are essential for improved production of export-oriented SMEs**.

Amongst the barriers to improvement of competitiveness, the EU **Progress Report 2013** underlined lack of efficient administration and effective credit schemes. It also notes the little progress made in the area of research and innovation.

This Action is also aligned with the mutually reinforcing priorities of the **SEE 2020** and the **Europe 2020 Strategy**, which put a strong focus on **SMEs' competitiveness**. The Action is in line with smart growth by supporting knowledge and innovation based on human capital. It will also address the principles of sustainable growth (by promoting competitive economy) and inclusive growth (by contributing to social and territorial cohesion).

Finally, the acquis framework which is relevant for this sector covers some 145 Directives, Regulations and Decisions which could be summarized into the following: directives related to product safety, health and safety at work, directives related to all kind of industries, environment and electronics. The Competitiveness Support Facility will **support SMEs to implement these standards to enhance their prospects for expansion on international markets**.

## SECTOR APPROACH ASSESSMENT

Bosnia and Herzegovina is not yet prepared for a sector approach regarding competitiveness and innovation. It lacks an overall socio-economic development strategy. However, following the adoption of the Council of Ministers' programme for 2014<sup>2</sup>, the Ministry of Foreign Trade and Economic Relations was officially charged with the role of preparing the State-level SME strategy for the period 2014-2020. The strategy should provide for countrywide harmonisation of definitions, coordination and SME development priorities in accordance with the Small Business Act and EU recommendations. However, no progress has been made so far and technical assistance which included the preparation of a countrywide SME strategy could not be launched since there was (and still is) no agreement on the scope and methodology for the preparation of such a strategy. **SMEs Strategies or Action Plans at the Entity** (including the Brcko District) and the Cantonal level exist. The priorities for SMEs development in Republika Srpska are defined in a new SME Development Strategy for 2014-2018 and programmes for the promotion of clusters and women entrepreneurship which focuses is on competitiveness, entrepreneurial learning and business environment. In the Federation of BiH, the priorities for SMEs development are defined in the Strategy for Economic Development for 2009-2018 and the Action plan for the period 2013-2015. Brcko District defined its SMEs development priorities in its Development Strategy for 2008-2017.

## LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

The Action will build on the achievements and **best practices of the previous IPA technical assistance** and grant schemes related to SMEs, regional and local economic development and tourism sector. Lessons learned from this assistance indicate that commitment and ownership over the reform process are indispensable preconditions for success. Alongside a further strengthening of the administration, future assistance should include all relevant stakeholders at the grassroots level to stimulate a bottom-up approach in articulating the needs of the private sector and creating more direct and sustainable benefits for SMEs and BiH economy. **The self-evaluation of IPA assistance to SME**, local and regional development performed in 2012 concludes that the projects which have been implemented under this programme are assessed as relevant for the country wide needs, they provide geographical balance, improve stakeholders' cooperation and promote the relevant EU policies. The main recommendations of this exercise indicate the need for definition of more effective indicators and for their regular update to monitor achievement of project objectives at the policy level. Concrete tangible results were evident in the local initiatives and partnerships created with support of grants schemes funded from IPA 2008 and IPA 2011 programmes related to SME Competitiveness. This Action is following **result-oriented monitoring (ROM) recommendations** for a number of technical assistance projects which recognise better SMEs access to finance as a significant contributor to the sector sustainability.

The EBRD's Small Business Support programme funded under the IPA 2009 programme in the amount of EUR 2 million assisted 136 SMEs to develop their businesses. The results have been impressive, with 78 % of the assisted companies reporting an increase in their revenues over the project's lifetime. The programme also made a substantial contribution to job creation, with an average increase in employment by more than 20% among the assisted enterprises. As part of the Private Sector Support Facility for the Western Balkans, **EBRD has successfully piloted the SME Competitiveness Support Facility (co-financed by IPA funds)** under the Multi beneficiary programme in the amount of EUR 5 million. The funds were distributed via the local bank and demand for the financing has far outstripped the available funding. A total of 11 SMEs benefited from these loans by making investments fully compliant with EU production standards/directives. The existing Small and Medium Sized Enterprises Competitiveness Support Facility will be replenished

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<sup>2</sup> CoM Programme adopted on 80<sup>th</sup> session held on January 22, 2014

by IPA funding through this Action in order to further support SMEs investments in the preparation for the EU accession.

## 2. LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	
To strengthen competitiveness of BIH SMEs on international market	<ul style="list-style-type: none"> <li>Doing Business, Distance to frontier, score (WB)</li> </ul>	Doing Business Report (World Bank)	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	ASSUMPTIONS
To facilitate SMEs access to finance for introduction of new standards through provision of business advisory and investment incentives	<ul style="list-style-type: none"> <li>Number of supported SMEs applying EU standards</li> </ul>	Statistics Agency of Bosnia and Herzegovina Bank reports Consultants reports	Political and macro-economic stability Stability of the financial sector
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	ASSUMPTIONS
<b>Improved competitiveness of SMEs through SME Competitiveness Support Facility</b> <ol style="list-style-type: none"> <li>Improved access to financing for urgent capital investments</li> <li>New specific EU production standards in SME's operations implemented</li> <li>Improved availability of Business advisory services to SMEs in the area of environment, health &amp; safety and product safety/quality.</li> </ol>	<ul style="list-style-type: none"> <li>Total amount of financing provided for private enterprises</li> <li>Number of SMEs certified or upgraded to specific EU production standards</li> <li>Number of SMEs receiving training and advisory services</li> </ul>	Project consultant reports  Verification consultant reports  Summary reports from consultants based on participating bank's client information	Stability of the financial sector  Sufficient market demand
ACTIVITIES	MEANS	OVERALL COST	ASSUMPTIONS
<b>Activities to achieve Results</b> <ol style="list-style-type: none"> <li>Provide source of finance for specific SME credit lines through Partner Banks (EBRD funds, not covered by IPA co-financing)</li> <li>Engage External Consultants to assist SMEs in preparation and verification of projects</li> <li>Provide investment incentives for sub-borrowers to support priority investments and improve affordability of finance ( range 10-20% depending on type of investment and level of compliance of EU Directives</li> </ol>	Indirect Management- Delegation Agreement (IMDA) with EBRD	EUR 4.000.000	SMEs and relevant banks are willing to participate in the programme

## **ADDITIONAL DESCRIPTION**

This Action will provide a total of EUR 4 million of EU grant funding to complement long term EBRD finance for urgent investments by SMEs. Under the EU grant, EUR 1 million will be utilised for recruitment of technical and verification consultants and EUR 3 million for incentives to sub-borrowers. The assistance is expected to mobilize EUR 20 million in new lending for investment projects. The EBRD will provide **finance and advice** to SMEs to promote their growth, by helping them to improve market performance and management effectiveness. In addition to providing the finance (both directly and through the intermediary financial institutions), the EBRD provides a wide range of business advice by connecting the SMEs with local consultants and international industry experts. Enterprises benefit from different types of advisory services, such as development of strategy and marketing plans to assistance with quality management standards, ICT, energy efficiency, etc.

## **RISKS**

The programme operates in a complex political and macroeconomic context in which it is difficult to influence the crucial internal and external economic factors at different administrative levels (municipalities, cantons, entities). Additional risk is the willingness/commitment of local banks to utilize products that have more complexity and conditionality for them and their clients. Many banks are also not qualified for loans in the SME sector and risk arises when lending long term investment. This can lead to a lack of access to finances for SMEs especially for investment finance.

## **3. IMPLEMENTATION ARRANGEMENTS**

### **ROLES AND RESPONSIBILITIES**

EBRD will be responsible for the overall management and implementation of the Action. Prior signing the contract agreement EBRD will develop detailed memo adjusted to the main criteria's for EU approval.

### **IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING**

This Action will be implemented by means of an Indirect Management Delegation Agreement with EBRD. The duration of the Action will be three years.

EBRD will procure consulting services and will in parallel provide funding to local banks in form of credit lines. EBRD will be responsible for managing the consultants, paying incentives and providing regular operational reporting to the EU.

## **4. PERFORMANCE MEASUREMENT**

### **METHODOLOGY FOR MONITORING (AND EVALUATION)**

The EBRD will be responsible for monitoring the implementation of the Action in line with the set of indicators. At the start of implementation, the EBRD will refine the matrix of indicators for the Action after undertaking the necessary research and data collection to define accurate baselines and realistic targets. The matrix of indicators will be discussed and approved with the EUD. The monitoring arrangements (including data to be collected, responsibilities, tools and frequency of monitoring activities) will be detailed in the Implementation Manual at the start of the Action.

Partner banks will be working closely with technical assistance consultants to successfully disburse signed credit lines to sub projects.

## INDICATOR MEASUREMENT

Indicator	Description	Baseline (2010)	Last available (2013)	Milestone 2017 <sup>3</sup>	Target 2020	Source of information
<b>Overall objective</b>	<b>CSP indicator(s) (outcome/impact)</b>					
Doing Business – Distance to frontier-score	The distance to frontier score aids in assessing the absolute level of regulatory performance and how it improves over time. This measure shows the distance of each economy to the “frontier,” which represents the best performance observed on each of the indicators across all economies in the <i>Doing Business</i> sample since 2005.	52,95	56,08	Still under discussion (tentatively 61-63)	Still under discussion	World Bank <sup>4</sup>
<b>Specific objective</b>	<b>Outcome indicator(s)</b>					
Number of supported SMEs applying EU standards	Upgrades of SME operations facilitated towards EU production standards	Baseline to be developed at the start of the project	NA	35	50	Action reports

3 Milestones and targets may be further fine-tuned in the inception phase.

<sup>4</sup> <http://www.doingbusiness.org/data/distance-to-frontier>



Indicator	Description	Baseline (2010)	Last available (2013)	Milestone 2017 <sup>3</sup>	Target 2020	Source of information
<b>Result 1</b>	<b>Immediate results indicator</b>					
Total amount of financing provided for private enterprises	Improved access to finance for private enterprises for urgent capital investments	Existing EBRD credit line funded from IPA Multi-beneficiary programme and signed in 2011 is the starting point.	EUR 5 million	EUR 13 million	EUR 20 million	Action reports
<b>Result 2</b>	<b>Immediate results indicator</b>					
Number of SMEs certified or upgraded to specific EU production standards	Number of SMEs supported by introducing new standards	As above.	11 SME's (total amount EUR 5 million)	35 SMEs	50 SMEs	Action reports
<b>Result 3</b>	<b>Immediate results indicator</b>					
Number of SMEs receiving training and advisory services <sup>5</sup>	Number of SMEs assisted in preparation and verification of projects	As above.	11 SME's (total amount EUR 5 million)	35 SMEs <sup>6</sup>	50 SMEs	Action reports

<sup>5</sup> Only those SMEs which receive financing through this facility are considered for provision of training and advisory services.

<sup>6</sup> This number could increase up to 165 SMEs if EU funded Small Business Support Facility (SBS) is considered in addition for provision of training and advisory services. SBS will be implemented from 2015-2017.

## **5. CROSS-CUTTING ISSUES**

### **ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)**

Actions related to the SME support will take into consideration environment protection. As a result the highest level of incentives paid to SMEs will be targeted to projects where SMEs achieving full compliance with EU standards under applicable EU Directives in the area of environmental protection.

### **ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)**

The Action encompasses a civil society element. The Action will aim to include their involvement in promoting the benefits of making investments to meet EU environmental and production standards.

### **EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING**

Equal opportunities for men and women will be guaranteed as an integral part of the implementation of the Action. It is expected that gender equity will be fully observed in the implementation of the Competitiveness Support Facility. Partner banks under this facility will be asked to collect different data, including segregated sub loan portfolio to MSMEs by gender. In addition, the data obtained through the baseline assessment of women entrepreneurs within the upcoming EBRD Women in Business Programme should be available at the start of this Action. This EBRD's programme overall objective is to promote women's participation in businesses by assisting women-led MSMEs to access finance and know-how. Two programmes will be having different eligibility criteria and will complement each other.

### **MINORITIES AND VULNERABLE GROUPS**

Participation in the projects' activities under this Action will be guaranteed on the basis of equal access regardless of racial or ethnic origin, religion or belief, disability, sex or sexual orientation. Additionally, partner banks will collect data for specific groups based on minorities and other vulnerable groups, pursuant to EBRD's Social and Environmental Policy.

## **6. SUSTAINABILITY**

The sustainability will be assured by building the capacity and expertise of lending officers at Partner Banks to assess risks and creditworthiness of clients making investments that comply with EU standards and also with successful SME serving as good practice examples to others. The facility is structured as a "kick-start" for investments of this nature in the SME segment. In the longer term, the need for financial incentives to motivate SMEs to upgrade their operations to comply with EU standards should be replaced by (i) more widespread education with respect to the obligations of SMEs under the new regulatory environment and (ii) strengthening of the monitoring/control mechanisms for non-compliance at a country wide level to act as a credible and realistic deterrent for non-compliance.

## **7. COMMUNICATION AND VISIBILITY**

A communication and visibility plan will be developed at the beginning of the project implementation. The Action will place particular emphasis on the dissemination of best practices and exchange of information in order to increase the impact of results and ensure conditions for the multiplier effect in other parts of the country. All visibility and communication related measures will be designed and implemented in accordance with the provisions of the Communication and Visibility Manual for EU External actions. The Action will place particular emphasis on the dissemination of best practices and exchange of information in order to increase the impact of results and ensure conditions for the multiplier effect in other parts of the country. Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target

audiences the added value and impact of the EU's interventions. Visibility actions should also promote transparency and accountability on the use of funds.

It is the responsibility of the beneficiary to keep the EU Delegation fully informed of the planning and implementation of the specific visibility and communication activities.

The beneficiary shall report on its visibility and communication actions in the report submitted to the IPA monitoring committee and the sector monitoring committees.